DuPont Capital

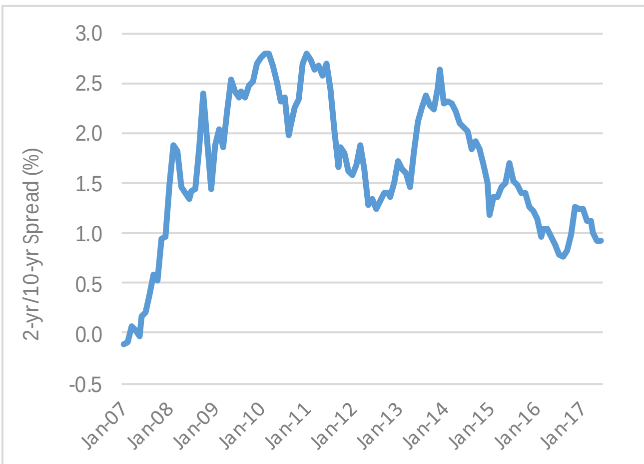
Global Market Positioning

July 1, 2017

Real-time insight on how DuPont Capital has positioned its portfolios as a function of key factors driving the markets.

Key Market Factors (as of July 1, 2017)

Spread of 10-Year Treasury over 2-Year Treasury

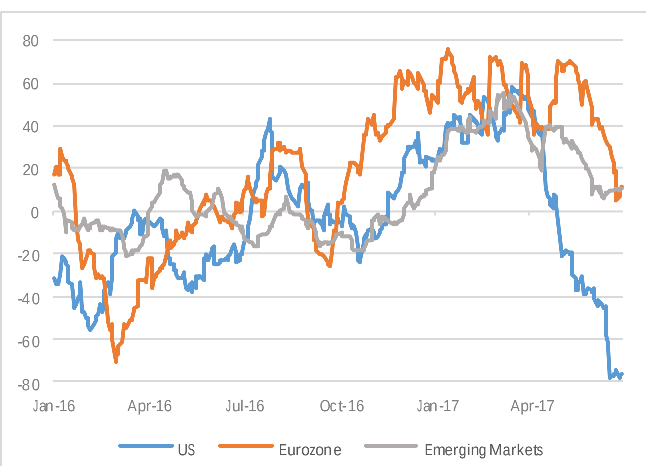


Source: Bloomberg

FLATTENING OF THE YIELD CURVE

- Intermediate and longer maturity U.S. Treasury yields declined due to lower core inflation data; unemployment has declined, but wage increases are not as expected. Core inflation should settle near 2%, but falling oil prices will push overall inflation lower.
- The yield curve flattened as the Fed's June rate hike pushed short-term rates higher while reduced inflation expectations have driven long-term rates lower.
- High yield spreads tightened in the second quarter despite falling oil prices. However, spreads for energy widened and the sector lagged the broader high yield market. Investment grade credit edged tighter in the face of healthy new issuance.
- USD and local Emerging Markets Debt performed well during the quarter, shrugging off the retreat in oil. Previous concerns over proposed U.S. trade policies have faded, but could later resurface.

Citi Economic Surprise Indices



Source: Citi

GROWTH AND THINFLATION

- The expected upswing in U.S. economic activity has yet to materialize, but GDP growth is revisiting levels of 2-3%. Growth has been adequate for equity markets, but signs of risk aversion have resurfaced as reflationary projections soften; Growth and Quality now dominate Value, and defensives have outperformed. Volatility remains low, but such levels are not self-perpetuating.
- The Eurozone has better matched macroeconomic expectations. Corporate confidence and investment are improving after several years of defensive cost rearguards. Valuations appear reasonable in the context of this potential growth convergence.
- Upside economic surprise in Emerging Markets has tapered since January, but still outweighs the downside. Commodity pricing and international trade dollar dynamics maintain their influence, but we feel medium-term valuations and opportunities are currently attractive and conducive to investment.

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CURRENT POSITIONING (as of July 1, 2017)

GLOBAL EQUITY

- The moderating outlook for inflation reflects waning optimism around fiscal and regulatory stimuli reflating the U.S. economy. As leading indicators taper and the yield curve flattens, there has been a partial rotation back to defensive, visible growth, or low volatility equity categories. Recent market upside has been assisted by higher earnings revisions. However, investor tolerance for disappointment at the individual company level is minimal and reactions can be punitive. Given this landscape, we have taken some profits in cyclical Industrial and Technology names. In contrast, we feel the relative valuations for Financials indicate that outperformance can be achieved on a stock-specific basis.
- Internationally, political dynamics rarely appear to move far from center stage. The new French president is expected to prove market friendly, but we remain cautiously optimistic. In contrast, the outcome of the UK snap election has only muddied the waters surrounding the appetite and mandate for Brexit. Our portfolio has a preference for companies that have the financial and operational ability to prosper irrespective of political tides. China has a Communist Party Congress in the second half of the year, which should ensure a tightly managed and stable economic narrative in the near-term interim.
- Downward price pressure on oil has returned, largely due to near-term supply-side concerns and the speed at which elevated inventory levels in key regions can be adequately depleted. We have a preference for Energy companies that have structural production cost advantages and a lower sensitivity to fluctuations in crude price. Our fundamental analysis of the sector is currently focused on assessing the longer-term risks to demand and the energy intensity of crude consumption.

FIXED INCOME

- Investor expectations for the economy and inflation have changed since earlier in the year. U.S. growth and inflation have been weaker. We are looking beyond short-term data, and focusing research on finding opportunities that are undervalued due to the changing expectations and continued uncertainty accompanying the new Trump administration. Overall, we are in a gradual risk reduction mode.
- We do not expect interest rates will rise significantly over the balance of 2017 due to lower inflation and continued demand for U.S. Treasuries. We are maintaining durations slightly shorter than the benchmark across the majority of our fixed income portfolios.
- We find both U.S. Dollar and local currency sovereign emerging markets debt to be slightly more attractive than other fixed income sectors. We have increased our allocation to local currency EMD as valuations have become more attractive relative to U.S. Dollar EMD. Overall, we remain overweight Venezuela, Ukraine, and Argentina, as well as higher quality countries such as Mexico and Brazil.
- Investment grade corporate spreads narrowed slightly this quarter, and even more over the past year. Despite the tightening, corporates remain the best valued investment grade segment. We have reduced exposure, but remain overweight, particularly within basic industry, insurance, and capital goods.

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